

## Senate Bill 334 – Dorothea Dix Lease Summary of Issues

**Current Lease:** On December 28, 2012, the State of North Carolina entered into a 75 year lease with a 24 year renewal option with the City of Raleigh for the Dorothea Dix Campus (Dix Campus). Under the terms of the lease, the City of Raleigh is to make the property a destination park. The State has the right to retain use of the property on Dix Campus for up to 15 years. The lease contains the following terms:

- Annual rent paid by the City of Raleigh to the State is \$500,000 per year, with a 1.5% increase each year thereafter;
- Annual rent paid by the City of Raleigh is reduced by the proportion of property retained by the State;
  - Currently the State houses Department of Health and Human Services (DHHS) administration on the Dix Campus. In total, there are 1,852 DHHS employees on Dix Campus as of March 15, 2013 – however, this number changes over time.

**Senate Bill 334:** Senate Bill 334 would cancel the current lease and reallocate the Dix Campus back to DHHS. The Bill provides compensation for any damages due the City of Raleigh from the taking of the leased property and refund any lease payments made to the State for the Dix Campus. The Department of Administration (DOA) is directed offer a lease, at fair market value, to the City of Raleigh for a portion of the Dix Campus. The portion to be used was identified in the 2007 State Government Facilities Master Plan (Master Plan). DHHS and DOA are required to evaluate the Master Plan's recommendations regarding Dix Campus and report to the General Assembly by March 15, 2014

S.L. 2006-66, Sec. 23.1 appropriated \$1 million to DOA to undertake a Facilities Master Plan for the State's Wake County operations. As part of the plan, special consideration was given to the future usage of Dix Campus. The recommendation of the Master Plan, broadly recommended:

- A consolidated DHHS Office Complex;
- Park and open space;
- Mixed-use villages;
- State Farmers Market (in existence);
- Connections to the surrounding context.

**Potential Fiscal Impacts:** There are a number of potential fiscal impacts as a result of the Bill. The impacts are as follows:

- Any damages due to the City of Raleigh under Sec. 3 of the Bill;
- Changes in lease payments from the lease of the Dix Campus at fair market value. The following chart reflects an analysis performed using a 2011 appraisal of the Dix Campus. As the payment streams occur out into the future, the net present value of the total payment is presented. The Fair Market Value (FMV) amount is based on an averaging of the 2011 appraised values.

Lease Option (75 year)	Nominal Value	Net Present Value (3% Discount)
Current Lease: \$500,000	\$68,486,390	\$22,574,170
FMV Option: \$1,600,000 per year plus 1.5% increase	\$219,156,449	\$72,237,345

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There are a couple of areas of concern that regarding the fair market value analysis.

- The analysis is incomplete as it is based on limited information;
- The decision to lease the land to the City of Raleigh may not reflect the highest and best use of the Dix Campus, as reflected in the appraisal;
- Forecasting real estate value for a 325 acre tract, within the City of Raleigh over a 75 year (potentially 99 year) period is highly uncertain. It is unknown what the value of the Dix Campus is over such a time horizon given real estate trends in the Greater Raleigh Area;
- The analysis assumes a leasing of the entire Dix Campus;
- The analysis of the current lease does not take into account lowered payments due to State Occupancy.

**Other Matters:** The leases to the Healing Place, Food Runners, City of Raleigh (Soccer Fields), and Farmers Market remain in place under S.B. 334.

### **Sources of Information:**

Department of Administration. 2007 State Government Facilities Master Plan. O'Brien/Atkins Associates, P.A. [Link to 2007 Master Plan](#).

Department of Administration. Appraisal Report for Dix Property. Worthy and Watchtel, Inc. [Link to 2011 Dix Campus Appraisal](#).

Department of Administration. Lease Agreement Between the State of North Carolina and the City of Raleigh. December 28, 2012

Senate Bill 334, First Edition. [Senate Bill 334 Bill Look-Up Link](#).

Session Law 2006-66. The Current Operations and Capital Improvements Appropriations Act of 2006. [S.L. 2006-66 Bill Look-Up Link](#).